

Federal Reserve Bank Operating Circular, a security interest in a Security Entitlement that is in favor of a Federal Reserve Bank or a Person may be created and perfected by a Federal Reserve Bank marking its books to record the security interest. Except as provided in paragraph (b) of this section, a security interest in a Security Entitlement marked on the books of a Federal Reserve Bank shall have priority over any other interest in the securities.

(2) In addition to the method provided in paragraph (c)(1) of this section, a security interest, including a security interest in favor of a Federal Reserve Bank, may be perfected by any method by which a security interest may be perfected under applicable law as described in § 357.10(b) or § 357.11. The perfection, effect of perfection or non-perfection and priority of a security interest are governed by that applicable law. A security interest in favor of a Federal Reserve Bank shall be treated as a security interest in favor of a clearing corporation in all respects under that law, including with respect to the effect of perfection and priority of the security interest. A Federal Reserve Bank Operating Circular shall be treated as a rule adopted by a clearing corporation for such purposes.

**§ 357.13 Obligations of the United States; no Adverse Claims.**

(a) Except in the case of a security interest in favor of the United States or a Federal Reserve Bank or otherwise as provided in § 357.12(c)(1), for the purposes of this subpart B, the United States and the Federal Reserve Banks shall treat the Participant to whose Securities Account an interest in a Book-entry Security has been credited as the person exclusively entitled to issue a Transfer Message, to receive interest and other payments with respect thereof and otherwise to exercise all the rights and powers with respect to the Security, notwithstanding any information or notice to the contrary. Neither the Federal Reserve Banks nor Treasury is liable to a Person asserting or having an Adverse Claim to a Security Entitlement or to a Book-entry Security in a Participant's Securities Account, including any such claim arising as a result of the transfer or

disposition of a Book-entry Security by a Federal Reserve Bank pursuant to a Transfer Message that the Federal Reserve Bank reasonably believes to be genuine.

(b) The obligation of the United States to make payments of interest and principal with respect to Book-entry Securities is discharged at the time payment in the appropriate amount is made as follows:

(1) Interest on Book-entry Securities is either credited by a Federal Reserve Bank to a Funds Account maintained at the Bank or otherwise paid as directed by the Participant.

(2) Book-entry Securities are redeemed in accordance with their terms by a Federal Reserve Bank withdrawing the securities from the Participant's Securities Account in which they are maintained and by either crediting the amount of the redemption proceeds, including both principal and interest, where applicable, to a Funds Account at the Bank or otherwise paying such principal and interest as directed by the Participant. No action by the Participant is required in connection with the redemption of a Book-entry Security.

**§ 357.14 Authority of Federal Reserve Banks.**

(a) Each Federal Reserve Bank is hereby authorized as fiscal agent of the United States to perform functions with respect to the issuance of Book-entry Securities offered and sold by the Department to which this subpart applies, in accordance with the terms of the applicable offering circular and with procedures established by the Department; to service and maintain Book-entry Securities in accounts established for such purposes; to make payments of principal and interest, as directed by the Department; to effect transfer of Book-entry Securities between Participants' Securities Accounts as directed by the Participants; and to perform such other duties as fiscal agent as may be requested by the Department.

(b) Each Federal Reserve Bank may issue Operating Circulars not inconsistent with this part, governing the details of its handling of Book-entry Securities, Security Entitlements, and

the operation of the book-entry system under this part.

**Subpart C—Treasury Direct Book-Entry Securities System (TREASURY DIRECT)**

**§ 357.20 Securities account in TREASURY DIRECT.**

(a) *Account.* A securities account consists of:

- (1) An account master record, and
- (2) A securities portfolio.

(b) *Security.* A security in TREASURY DIRECT is evidenced by the account master record and a description of the security as set out in the securities portfolio associated with an account master record.

(c) *Account master record.* An owner must establish an account master record before the owner may deposit a security in TREASURY DIRECT. If the security is being purchased on original issue, the request that an account master record be established may be made on the form used for purchase of the security. If the security is being acquired other than on original issue, the request that an account master record be established should be made on the appropriate form that is provided by the Department. The account master record includes, but is not limited to, the following data:

- (1) The exact form of registration in which the securities are held;
- (2) The TREASURY DIRECT account number;
- (3) The correspondence address for the account;
- (4) The TIN of the owner, or in the case of ownership by two individuals, of the first-named owner; and
- (5) Payment instructions. (See § 357.26.)

(d) *Securities portfolio.* The securities portfolio contains a description of each security and is the aggregate of all securities in the securities account.

(e) *Statement of account.* The Department shall send a statement of account (statement):

- (1) Upon the establishment of an account master record;
- (2) Upon a change in the securities portfolio;
- (3) At an owner's request; or

(4) Upon the determination on December 31 that an owner has not received a statement of account for that current calendar year.

The statement shall contain information regarding the account as of the date of such statement. The price associated with each security in the securities portfolio will also appear on the statement.<sup>1</sup> The statement may be sent

<sup>1</sup>IRS regulations require reporting of income information on a security.

(1) If the security is a bill, the price information will be used to comply with this requirement. The earnings reported to IRS for the year of a bill's maturity will be the difference between the par value of the bill and its price.

(a) If a bill is deposited in TREASURY DIRECT at original issue, the price shown will be the issue price.

(b) If a bill is transferred to TREASURY DIRECT from TRADES, the price shown will be that included in the transfer wire or supplied subsequently by the bill owner. If a price is not furnished, the price shown will be the weighted average price of the bill of the longest maturity having the identical CUSIP number.

(c) If a bill is transferred from one TREASURY DIRECT account to another, the price shown in the receiving (transferee's) account will be that shown on the transfer instructions or supplied subsequently by the transferee. If a price is not furnished, the price shown will be the weighted average price at original issue of the bill of the longest maturity having the identical CUSIP number, unless the term of the bill can be determined from the account record in which case the price shown will be the weighted average price at original issue of the bill with that term.

(2) If the security is a note or bond, the earnings reported to IRS for a year will be the periodic interest payments made during that year. If a note or bond is transferred to a TREASURY DIRECT account between interest payment dates, the earnings reported to IRS for the transferee will show the interest for the entire interest payment period. The price for notes and bonds will be shown on the statement of account for the account owner's information. The price shown will be determined following the procedures described above for bills.

(3) The security owner should report directly to the IRS (a) adjustments to annual earnings amounts arising from acquisition of notes and bonds between interest payment periods and (b) price corrections for bills reported after preparation of the reports to the IRS.